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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

Re: Notification of Permitted Ex Parte Presentation
MM Docket Nos. 92-265 and 92-266

Dear Ms. Searcy:

Discovery Communications, Inc. ("Discovery"), by its attorneys and pursuant to Section 1.1206(a)(2) of the Commission's rules, hereby submits an original and one copy of this memorandum regarding a permitted ex parte presentation to the Commission's staff regarding MM Docket Nos. 92-265 and 92-266.

On Friday, March 19, 1993, at approximately 2:00 p.m., Lawrence W. Secrest III and Philip V. Permut, of this firm, along with Ruth Otte, Judith McHale, Gregory Durig and Barbara Wellbery, of Discovery, met with Robert Corn-Revere of Chairman James H. Quello's office. The discussion related to Discovery's comments and reply comments filed in response to the Notices of Proposed Rule Making in MM Docket Nos. 92-265, FCC 92-543 (rel. Dec. 24, 1992) and 92-266, FCC 92-544 (rel. Dec. 24, 1992), which sought comment on the implementation of various provisions of the Cable Television Consumer Protection and Competition Act of 1992 dealing with the development of competition and diversity in video programming distribution and carriage and the regulation of cable rates.

A copy of the attached document was presented to Mr. Corn-Revere.

Ms. Donna R. Searcy
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Kindly direct any questions regarding this matter to
the undersigned.

Respectfully submitted,


Wayne D. Johnsen

WDJ/rr
cc: Robert Corn-Revere

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

DISCOVERY COMMUNICATIONS

**Presentation to the
Federal Communications Commission
(March 19, 1993)**

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OVERVIEW:

**THE DISCOVERY CHANNEL
AND**

THE LEARNING CHANNEL

DISCOVERY AND LEARNING

THE DISCOVERY CHANNEL:	60 MILLION HOMES
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Documentaries on nature, the environment, science & technology, human adventure, history & exploration.

THE LEARNING CHANNEL:	20 MILLION HOMES
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Films, series, & documentaries on history, science, civilization. Plus how to's from experts on cooking, gardening, & home improvement. For preschoolers, Ready, Set, Learn! Six hours a day of commercial-free, violence-free programs teaching kids to read, to conceptualize, socialize, & be ready for school.

IMPORTANCE OF VOLUME

WHY VOLUME IS CRITICAL TO ADVERTISING BASED SERVICES:

- **AD REVENUE VARIES IN DIRECT PROPORTION TO THE NUMBER OF VIEWERS.**
- **EACH AD BUY PROMISES A SPECIFIC NUMBER OF VIEWERS.**
- **THE NUMBER OF VIEWERS IS DERIVED FROM 2 SOURCES:**
 - **COVERAGE: TOTAL NUMBER OF HOMES THAT CAN RECEIVE YOUR SERVICE**
 - **RATING: THE PERCENT THAT ACTUALLY WATCH**
- **THE MORE SUBSCRIBERS WHO CAN RECEIVE YOUR SERVICE, THE MORE POTENTIAL VIEWERS (ASSUMING YOU CAN ENTICE THE SAME PERCENTAGE TO WATCH):**
 - **20M SUBS X 1 RATING = 200,000 VIEWERS**
 - **60M SUBS X 1 RATING = 590,000 VIEWERS**

WHY VOLUME IS CRITICAL TO ADVERTISING BASED SERVICES CONT...

A CURRENT "REAL WORLD" EXAMPLE:

TLC: 20M SUBS X .2 RATING = 40,000 VIEWERS

TDC: 60M SUBS X .6 RATING = 360,000 VIEWERS

IMPACT ON AD REVENUE OF LOWER SUBS AND LOWER RATINGS IS SUBSTANTIAL:

TLC AD REVENUE PER VIEWER = \$150

\$150 X 40,000 VIEWERS = \$6 MILLION

AVERAGE UNIT RATE: \$60

TDC AD REVENUE PER VIEWER = \$266

\$266 X 360,000 VIEWERS = \$96 MILLION

AVERAGE UNIT RATE \$750

THE CRUCIAL CONNECTION BETWEEN SUBSCRIBER NUMBERS AND AD SALES REVENUE

OUR OPERATING PHILOSOPHY

- **Because two things determine Ad revenue, total homes who can see our services and the percent who actually watch, we have 2 fundamental strategies:**
 - 1. Incent "everyone" (cable, SMATV, MMDS, etc) to make our services available to the largest number of homes.**
 - 2. Invest in programming. Constantly enhance program quality so people "tune in" and watch.**

AFI

AFFILIATE RATE CARD HISTORY

1986

- **WE HAD 7 MILLION SUBS**
- **ALL FREE, NO LICENSE FEES, NO AFFILIATE REVENUE STREAM**
- **NO AD SALES, TOO SMALL TO BE METERED BY NIELSEN**
- **TRANSLATE - LOSING A LOT OF MONEY**
- **NO PROSPECT OF A FUTURE VIABLE BUSINESS WITHOUT AFFILIATE REVENUE AND AD REVENUE**
- **WE HAD TO INCENT DISTRIBUTION TO ACHIEVE BOTH AD AND AFFILIATE REVENUE**

OUR INITIAL STRATEGY:

ANYONE WHO RIPPED UP A FREE AGREEMENT AND PROMISED TO CARRY OUR SERVICE WAS GIVEN LOWER FUTURE RATES OVER A PERIOD OF YEARS.

TO QUALIFY, AFFILIATES HAD TO TEAR UP FREE AGREEMENT AND SIGN UP AS A "CHARTER AFFILIATE" BY DECEMBER 1987. BEING A CHARTER AFFILIATE GAVE YOU:

- LOW RATES IN THE FUTURE**
- SMALL VOLUME DISCOUNTS TO "DRIVE" RAPID SYSTEM LAUNCHES.**
- ADVERTISING "REBATES" IF CARRIAGE BENCHMARKS WERE MET**

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Discovery Has 3 Categories of Affiliate Agreements **All Based on Historical Circumstances**

Total number Discovery subs	Category	Explanation
46.6 M	Pre-Jan 1988- Charter Affiliates	Charter Discounts granted: chose to terminate free agreements in exchange for long term favorable rates. Includes cable & SMATV
6.8 M	Post-Jan 1988- Noncharter & New Affiliates	Chose <u>NOT</u> to terminate free agreements in exchange for long term favorable rates. Includes cable, SMATV & MMDS
.8 M	TVRO	Did not pay us until we scrambled in Sept 1990

THE "NONCHARTER" & NEW AFFILIATE RATE CARD

1988-1993:

As "free" agreements expired for those affiliates who did not take advantage of the 1987 offer, a new "higher priced" rate card became effective. Key features of this rate card (shown on the next page) are:

- a higher top of rate card than that offered in 1987
- discounts based on volume in order to "drive" rapid system "launches"
- no ad sales "rebate"

DISCOVERY "NONCHARTER" & NEW AFFILIATE RATE CARD

<u>FOR EACH AFFILIATE</u>		<u>FEE PER TDC SUBSCRIBER PER MONTH</u>		
TDC Subscriber		1993	1994	1995
0	- 999 Plus	23.0¢	24.0¢	25.0¢
1,000	- 4,999 Plus	22.0¢	23.0¢	24.0¢
5,000	- 9,999 Plus	21.0¢	22.0¢	23.0¢
10,000	- 19,999 Plus	20.0¢	21.0¢	22.0¢
20,000	- 29,999 Plus	19.0¢	20.0¢	21.0¢
30,000	- 39,999 Plus	18.0¢	19.0¢	20.0¢
40,000	- 49,999 Plus	17.0¢	18.0¢	19.0¢
50,000	- 99,999 Plus	16.5¢	17.5¢	18.5¢
100,000	- 199,999 Plus	16.0¢	17.0¢	18.0¢
200,000	- 399,999 Plus	15.5¢	16.5¢	17.5¢
400,000	- 799,999 Plus	15.0¢	16.0¢	17.0¢
800,000	- 1,599,999 Plus	14.5¢	15.5¢	16.5¢
1,600,000	+ Plus	14.0¢	15.0¢	16.0¢

DISCOVERY RATE CARD OPERATING PRINCIPLES

- . FAIRNESS ACROSS ALL CABLE MSO'S AND SMATV/MMDS OPERATORS IS OUR CARDINAL RULE**
- . MUST BE ABLE TO "LOOK EVERYONE IN THE EYE"**
- . VOLUME IS FAIR BECAUSE IT DIRECTLY DETERMINES AD REVENUE**

**DISCOVERY DOES NOT FAVOR ITS OWNER
BECAUSE WE
CANNOT SURVIVE IF WE ONLY HAVE THEIR
SUBSCRIBERS**

- . Owners pay on same rate card as everyone else**
- . Many MSOs pay less than Cox and Newhouse**
- . No exclusivity agreements in their territories (or anywhere)**
- . No extra marketing**
- . Discovery licensed alternate technology (except TVROs) at the same rate card as cable operators**

DISCOVERY RATES FOR TOP 15 MSOs

SYSTEM NAME	TDC SUBS	NET RATE SUB/MONTH
TCI	12,394,126	8.8¢
ATC/PARAGON	6,718,018	9.0¢
CONTINENTAL	2,847,529	9.6¢
COMCAST	2,370,738	9.7¢
CABLEVISION SYSTEMS	2,000,711	9.8¢
COX CABLE	1,708,978	10.0¢
NEWHOUSE	1,312,000	10.1¢
JONES INTERCABLE	1,206,051	10.1¢
TIMES MIRROR	1,179,417	10.2¢
CABLEVISION INDUSTRIES	1,124,331	10.2¢
VIACOM	1,093,094	10.2¢
ADELPHIA CABLE	996,137	10.3¢
SAMMONS	896,105	10.4¢
CENTURY	771,282	10.5¢
NCTC	735,363	10.5¢
COLONY	709,822	10.6¢

THE TVRO RATE CARD:

IN ORDER TO RESPOND TO REQUESTS FROM TVRO AFFILIATES, THE DISCOVERY CHANNEL "SCRAMBLED" ITS SERVICE. AT THAT TIME, DISCOVERY DEVELOPED A RATE CARD FOR TVRO AFFILIATES. KEY FEATURES OF THIS RATE CARDS ARE:

- A TOP OF RATE CARD THAT FELL BELOW THAT OF MOST COMPETING SERVICES BUT ALLOWED FOR INCREMENTAL COSTS ASSOCIATED WITH SERVICING THE TVRO MARKET AND OTHER MARKET FACTORS**
- DISCOUNTS BASED ON VOLUME IN ORDER TO "DRIVE" RAPID SYSTEM "LAUNCHES"**

DISCOVERY'S PENETRATION BY TECHNOLOGY

<u>CATEGORY</u>	<u>UNIVERSE</u>	<u>12/92 DSC SUBS</u>	<u>%</u>
CABLE	62,000K	59,000K	95%
SMATV	830K	553K	66%
MMDS	282K	232K	82%
PAYING TVRO	1032K	832K	81%
TOTAL ALTERNATE TECHNOLOGIES	2144K	1617K	75%

TVRO RATES: TOP OF RATE CARD

ESPN *	1.00
WTBS	.92
TNT	.55
CNN	.55
USA *	.50
LIFETIME	.45
A&E *	.40
TWC *	.40
DISCOVERY	.38
FAM	.30
CMT *	.25

*** Non-vertically integrated programming services**